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SECRETARY, BOARD OF
OIL, GAS & MINING

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF AXIA ENERGY II, LLC FOR AN ORDER MODIFYING THE BOARD'S ORDERS ENTERED IN CAUSE NOS. 131-14, 139-42, 139-90 TO ESTABLISHING SPECIAL 2,560-ACRE (OR SUBSTANTIAL EQUIVALENT) DRILLING UNITS FOR THE PRODUCTION OF OIL, GAS AND ASSOCIATED HYDROCARBONS FROM THE LOWER GREEN RIVER-WASATCH (COLTON) FORMATIONS, COMPRISED OF SECTIONS 27, 28, 33 AND 34, AND SECTIONS 29 THROUGH 32, RESPECTIVELY, TOWNSHIP 2 SOUTH, RANGE 1 WEST, USM, DUCHESNE AND UINTAH COUNTIES, UTAH.

REQUEST FOR AGENCY ACTION

Docket No. 2016-011

Cause No. 139-138

COMES NOW, Axia Energy, II, LLC ("Axia"), acting by and through its attorneys, MacDonald & Miller Mineral Legal Services PLLC, and pursuant to Utah Code Ann. §§40-6-5(3)(b) and 40-6-6, and hereby respectfully requests the Board of Oil, Gas and Mining (the "Board") to enter an order modifying the Board's Orders entered on August 11, 1971 in Cause No. 131-14 (the "131-14 Order"), entered on April 17, 1985 in Cause No. 139-42 (the "139-42 Order"), and entered on May 9, 2012 in Cause No. 139-90 (the "139-90 Order") (the 131-14, 139-42 and 139-90 Orders collectively hereinafter sometimes referred to as the "Applicable Orders"). Specifically, Axia seeks establishment of two special 2,560-acre (or substantial equivalent) drilling units for the production of

oil, gas and hydrocarbons from the Lower Green River-Wasatch (Colton) formations, defined as follows:

the interval from the top of the Lower Green River Formation (Mahogany Marker Bed) to the base of the Green River-Wasatch or top of the North Horn Formation, the stratigraphic equivalent of which is defined as between 7,212 feet and 13,651 feet as shown in the Borehole Compensated Sonic-Gamma Ray Log of the Flying J – Dustin #1 Well located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 22, Township 2 South, Range 3 West, U.S.M., and as between 6,555 feet and 12,392 feet as shown on the Digital Sonic Log of the Devon – 1-26B1 Well located in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 26, Township 2 South, Range 1 West, U.S.M.

(the “Subject Formations”), comprised of the following respective Duchesne and Uintah County, Utah lands:

Township 2 South, Range 1 West, USM

Sections 27, 28, 33 and 34

Sections 29, 30, 31 and 32

(the “Subject Lands”), with the following caveats:

- a) up to 80 long lateral (in excess of one mile in length) horizontal wells (“LHW’s”) may be drilled and produce in each such drilling unit so established, the orientation of which may be at Axia’s discretion;
- b) No producing interval of a LHW may be located closer than 300 feet to the boundary of each drilling unit so established without obtaining an exception location approval in accordance with Utah Admin. Code Rule R649-3-3. With respect to LHW’s within the same drilling unit, there shall be no inter-well setback distance required provided stacked LHW laterals are located at least 100 feet or greater apart in vertical distance;

- c) the surface location of any authorized LHW not only may be located anywhere on the drilling unit, but may also be located off the drilling unit so established presuming proper surface and sub-surface authorization for such a location has been obtained from the owners and the well will be cased and cemented to the 300-ft. setback as set forth in (b) above, both to be evidenced and satisfied by a self-certification to such effect executed by the Operator of said drilling unit and filed with the Utah Division of Oil, Gas and Mining (the "Division"), and the other setbacks for the laterals set forth in (b) above are maintained;
- d) any party failing to participate in the drilling of the initial LHW within the respective drilling unit so established, whether by affirmative election or failure to respond to a written opportunity to participate within 30 days after receipt, shall be deemed a non-consenting party to said well and the next six (6) LHW's drilled within said drilling unit;
- e) the production interval of any LHW so authorized may not be closer than 300 feet to the three existing wells identified in Paragraph 5 below without obtaining an exception location approval in accordance with Utah Admin. Code Rule R649-3-3. Production from said three existing wells shall continue to be allocated on a sectional (640-acre or substantial equivalent) basis in accordance with the Applicable Orders;
- f) vertical or short lateral horizontal wells ("SHW") may also be drilled and produce on each drilling unit so established with no inter-well setbacks from other wells within the same drilling unit, but providing no vertical or directionally drilled well may have producing intervals closer than 300 feet from a drilling unit boundary, and providing any SHW may not have producing intervals closer than 300 feet from the boundaries of the drilling unit, without an exception location approval in accordance with Utah Admin. Code Rule R649-3-3;
- g) the surface location of any authorized SHW not only may be located anywhere on the drilling unit, but may also be located off the drilling unit so established presuming proper surface and sub-surface authorization for such a location has been obtained from the owners and the well will be cased and cemented to the 300-ft. setback as set forth in (e) above, both to be evidenced and satisfied by a self-certification to such effect executed by

the Operator of said drilling unit and filed with the Division, and the other setbacks for the laterals set forth in (f) above are maintained; and

- h) presuming this Request is granted, making said Order effective as of the first day of the month following the date of first production from the first LHW drilled upon the respective drilling unit, at which time production from not only the first LHW, but also production from any additional LHW's or new producing SHW's and vertical and directionally wells, all shall be allocated on a pro-rata acreage basis over the entire 2,560-acre drilling unit; and
- i) presuming this Request is granted, if, within 18 months of entry of the conforming Order, no LHW has been drilled on one or both drilling units, said Order shall be automatically vacated and the Applicable Orders shall once again fully govern.

In support of this Request, Axia respectfully states and represents:

1. Axia is a Delaware limited liability company in good standing, with its principal place of business in Denver, Colorado. Axia is duly qualified to conduct business in the State of Utah, and is fully and appropriately bonded with all relevant Federal, Indian and State of Utah agencies.

2. The oil, gas and associated hydrocarbons underlying the Subject Lands are primarily owned in fee (privately), with some scattered State of Utah ownership (administered by the Utah School and Institutional Trust Lands Administration ("TLA")); there is no Federal or Tribal mineral ownership. Axia owns a majority or near majority of the working interest in the Subject Lands as relevant to the Subject Formations.

3. Pursuant to the 131-14 Order, the Board established sectional (640-acre or substantial equivalent) drilling units for the production of oil, gas and hydrocarbons from the Subject Lands as to Subject Formations, defined in said Order as follows:

that interval below the stratigraphic equivalent of 9,600 feet depth in the "E" Log of the Carter #2 Bluebell well located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$, Section 3, Township 1 South, Range 2 West, U.S.M. (which equivalence is the depth 9,530 feet of the SP curve, Dual Induction Log, run March 15, 1968, in the Chevron #1 Blanchard Well located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of said [Section 3]), to the base of the Green River-Wasatch formations.

Under the original 131-14 Order, only one well may produce on each such unit so established, which must be located no closer than 1,320 feet from the exterior boundary of any governmental section; provided, that an exception to said 1,320-foot limitation may be granted administratively without a hearing where a topographical exception is deemed necessary.

4. Pursuant to the 139-42 Order, the Board modified the 131-14 Order to allow up to two (2) producing wells on each sectional drilling unit, to be drilled at the option of the operator of the unit, provided that said operator could have a reasonable opportunity to recover costs of drilling, completing, producing and operating a well plus a reasonable profit. Any additional wells must be located at least 1,320 feet from an existing well in the unit, not closer than 660 feet from the exterior boundary of the unit and may not be drilled in the same quarter section as the first well without administrative approval.

5. Pursuant to the 139-90 Order, the Board modified the 131-14 and 139-42 Orders by additionally authorizing up to four (4) producing wells, whether all vertical, all (short lateral) horizontal, or a combination of both, upon the drilling units, to be drilled at the option of the operator and with the operator's full discretion as to the development of the hydrocarbon reserves, provided each well shall not be closer than 1,320 feet from an existing unit well completed in and producing from the formation and no closer than 660 feet from the drilling unit boundary. The Board also expressly eliminated any first well siting requirements.

6. Pursuant to the Applicable Orders, Axia's predecessors in title (Enerplus Resources (USA) Corporation and Bill Barrett Corporation) and Newfield Production Company ("Newfield") drilled the following vertical oil wells upon the following portions of the Subject Lands and which currently produce from the Subject Formations:

<u>Well</u>	<u>Location</u>	<u>Date of First Production</u>
Windy Ridge State 34-7	Sec. 34: SW $\frac{1}{4}$ NE $\frac{1}{4}$	2/24/09
Emerald Phoenix 15-31-2-1W	Sec. 31: SW $\frac{1}{2}$ SE $\frac{1}{4}$	7/3/12
South Altamont 3-30-21	Sec. 30: NE $\frac{1}{4}$ NW $\frac{1}{4}$	9/28/13

Newfield currently operates the Emerald Phoenix 15-31-2-1W Well, while Axia currently operates the remaining two wells.

7. In addition, Axia is the permittee of the following applications for permit to drill (“APD’s”), which have been approved by the Division but which have not yet been spud:

<u>Well</u>	<u>Location</u>	<u>APD Approval Date</u>
South Altamont 15-27D-21	Sec. 27: NW $\frac{1}{4}$ SE $\frac{1}{4}$ (SHL) SW $\frac{1}{4}$ SE $\frac{1}{4}$ (BHL)	7/29/13
South Altamont 5-29D-21	Sec. 29: SE $\frac{1}{4}$ NW $\frac{1}{4}$	7/29/13
South Altamont 13-3-21	Sec. 30: SW $\frac{1}{4}$ SW $\frac{1}{4}$	12/22/15

All three are for vertical or directionally drilled wells relating to the Subject Formations. Presuming this Request is granted, Axia intends to withdraw or modify these APD’s to instead relate to proposed LHW’s.

8. The Board has previously found that the Subject Formations have at least three, and possibly up to six, potentially productive members attractive for horizontal development. See the Board’s Orders entered in Cause Nos. 139-134 (Newfield Central Basin) and 131-141 (Crescent Point Randlett). The Board has also found that the Subject Formations constitute a “common source of supply” of oil, gas and associated hydrocarbons in and around the area of the Subject Lands. *Id.* Moving north from Newfield’s Central Basin area into Axia’s development area, depth to prospective horizontal targets is deeper bringing into consideration Green River intervals above Newfield’s Bar F zone (shallowest) such that, three additional zones are deemed to be

prospective. All potential horizontal targets have been productive vertically with marginally to sub-economic results due to limited permeability and natural fracture intensity such that long lateral horizontal drilling and multiple stage fracture stimulation is necessary to provide economic recovery of the in-place resource. This has been demonstrated by the horizontal success of Newfield's Central Basin area. Furthermore, potential target intervals for horizontal development can be correlated in continuity across the proposed development area. Axia believes and therefore alleges that there may be up to nine (9) potentially productive members attractive for horizontal development.

9. Based on Axia's experience with horizontal development in the Sand Wash (Colorado) Basin and, in particular, on Newfield's horizontal development of the Central Basin area immediately south of the Subject Lands as represented to the Board, Axia believes and therefore alleges that the Subject Formation underlying the Subject Lands should be developed through use of LHW's for the best economic return and maximization of resource recovery. Axia desires to initiate such a program to confirm these allegations.

10. A 2,560-acre drilling unit will allow for additional LHW's along which would otherwise be sectional and/or drilling unit boundaries (if established on a 1,280-acre basis), thereby resulting in additional production which would otherwise be

kept in the ground (and thereby result in waste). In addition, 2,560-acre drilling units will allow for consolidation of pads, due to reach and especially when returning to an existing pad for additional targets, and of facilities and infrastructure, all minimizing surface disturbance.

11. Axia believes and therefore alleges that up to 80 LHW's will be required for each 2,560-acre drilling unit to fully recover the resources from the Subject Formations. In addition, reducing setbacks from the existing 660-ft. to 300-ft. will result in additional recovery of resources that would otherwise be left in the ground (and thereby result in waste), but will not adversely affect the correlative rights of the owners in the adjacent lands.

12. Axia believes and therefore alleges that a 300-ft. setback for the three existing wells described in Paragraph 5 above will prevent communication. Consequently, to avoid disturbing existing contractual arrangements and revenue distribution, Axia requests those wells remain subject to the Applicable Orders and production allocation for them remain on a sectional (640-acre) drilling unit basis.

13. However, the first LHW has been drilled and begins to produce, and to protect correlative rights, production from any new wells, whether LHW's, SHW's or vertical or directionally drilled wells, should, upon the date of first production from said initial LHW, be allocated on a 2,560-acre drilling unit basis.

14. The economic risks of initiating a LHW development program are very high at on-set. If a party is allowed to non-consent the first well and have the ability to thereafter participate in all future wells, said party receives the benefit of the knowledge gained going forward without having assumed any risk. As a consequence, and has been accepted, acknowledged and implemented by the Colorado Oil and Gas Conservation Commission in certain of its orders, Axia requests the Board to order that any party failing to participate in the initial LHW on each drilling unit, by either affirmative election or failure to respond to a written opportunity to participate within 30 days of receipt, be deemed a non-consenting party not only for that well and the next six (6) LHW's drilled on the drilling unit.

15. Furthermore, to insure timely implementation of the requested LHW program, Axia agrees, presuming this Request is granted, that the Board's Order in this Cause shall be vacated and the Subject Lands shall again be fully subject to the Applicable Orders should no LHW be drilled on either drilling unit within 18 months of the date of entry.

16. Axia believes and therefore alleges that granting its Request will be in furtherance of the public policies of this State to promote greater recovery of oil, gas and hydrocarbons from the Subject Formations without waste and with protection of the

correlative rights of all affected owners, constitutes orderly and consistent development of the Subject Lands, and is just and reasonable.

17. Axia will, in accordance with Board rules, timely submit exhibits and present testimony in support of these allegations.

18. Axia will separately file a certificate of mailing listing all parties known to it, based on a search of the TLA and Duchesne and Uintah County realty records, and the records of the Division, whose “legally protected interests” will be affected by this Request. There are no respondents or adverse parties known at this time to Axia.

WHEREFORE, Axia respectfully requests:

1. That this matter be set for hearing on May 25, 2016 in Salt Lake City;
2. That notice of such hearing be given as provided by law; and
3. That, upon sufficient evidence produced and testimony given at the hearing,

the Board issue an order:

- a) modifying the 131-14, 139-42 and 139-90 Orders insofar as they pertain to the Subject Lands to provide as follows;
- b) establishing, two special 2,560-acre (or substantial equivalent) drilling units for the production of oil, gas and hydrocarbons from the Subject Formations, comprised, respectively, as follows:

Township 2 South, Range 1 West, USM

Sections 27, 28, 33 and 34

Sections 29 through 32

- c) authorizing up to 80 long lateral (in excess of one mile in length) horizontal wells ("LHW's") to be drilled and produce on each such drilling unit so established, the orientation of which may be at Axia's discretion;
- d) providing that no producing interval of an authorized LHW may be located closer than 300 feet to the boundaries of each drilling unit so established without obtaining an exception location approval in accordance with Utah Admin. Code Rule R649-3-3. With respect to LHW's within the drilling unit, there shall be no inter-well setback distance required provided stacked LHW laterals are located at least 100 feet or greater apart in vertical distance;
- e) providing that the surface location of any authorized LHW Well not only may be located anywhere on the drilling unit, but may also be located off the drilling unit so established presuming proper surface and sub-surface authorization for such a location has been obtained from the owners and the well will be cased and cemented to the 300-ft. setback as set forth in (d) above, both to be evidenced and satisfied by a self-certification to such effect executed by the Operator of said drilling unit and filed with the Division, and the other setbacks for the laterals set forth in (d) above are maintained;
- f) providing that any party failing to participate in the drilling of the initial LHW within the respective drilling unit so established, whether by affirmative election or failure to respond to a written opportunity to participate within 30 days after receipt, shall be deemed a non-consenting party to said well and the next six (6) LHW's drilled within said drilling unit;
- g) providing the productive intervals of any LHW so authorized may not be closer than 300 feet to the three existing wells identified in Paragraph 5 above without obtaining an exception location approval in accordance with Utah Admin. Code Rule R649-3-3, and that production from said three existing wells shall continue to be allocated on a sectional (640-acre or substantial equivalent) basis in accordance with the Applicable Orders;
- h) vertical or short lateral horizontal wells ("SHW") may also be drilled and produce on each drilling unit so established with no inter-well setbacks from other wells within the same drilling unit, but providing no vertical or

directionally drilled well may have producing intervals closer than 300 feet from a drilling unit boundary, and providing any SHW may not have producing intervals closer than 300 feet from the boundaries of the drilling unit, without an exception location approval in accordance with Utah Admin. Code Rule R649-3-3;

- i) providing that the surface location of any authorized SHW not only may be located anywhere on the drilling unit, but may also be located off the drilling unit so established presuming proper surface and sub-surface authorization for such a location has been obtained from the owners and the well will be cased and cemented to the 300-ft. setback as set forth in (h) above, both to be evidenced and satisfied by a self-certification to such effect executed by the Operator of said drilling unit and filed with the Division, and the other setbacks for the laterals set forth in (h) above are maintained;
- j) presuming this Request is granted, making said Order effective as of the first day of the month following the date of first production from the first LHW drilled upon the respective drilling unit, at which time production from not only said first LHW, but also production from any additional LHW's, or new producing SHW's and vertical and directionally wells, all shall be allocated on a pro-rata acreage basis over the 2,560-acre drilling unit;
- k) presuming this Request is granted, if, within 18 months of entry of the Order, no LHW has been drilled on one or both drilling units, said Order shall be automatically vacated and the Applicable Orders shall once again fully govern.
- l) making such findings and orders in connection with this Request as it deems necessary; and
- m) providing for such other and further relief as may be just and equitable under the circumstances.

Respectfully submitted this 8th day of April, 2016.

**MACDONALD & MILLER MINERAL
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